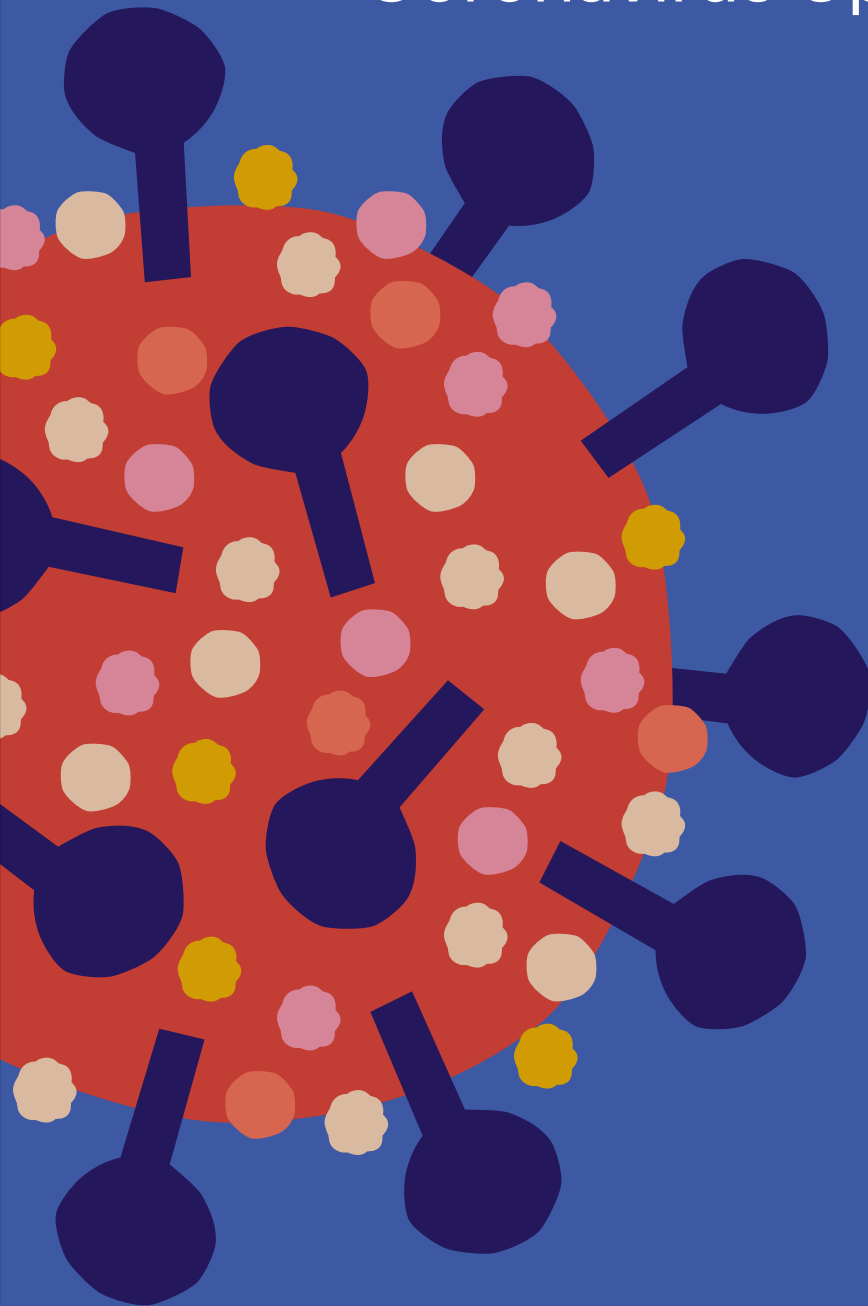


The State of Fashion 2020

Coronavirus Update



McKinsey
& Company

BOF



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CONTRIBUTORS



IMRAN AMED

As founder, editor-in-chief and chief executive of The Business of Fashion, Imran Amed is one of the fashion industry's leading writers, thinkers and commentators. Fascinated by the industry's potent blend of creativity and business, he began BoF as a blog in 2007, which has since grown into the pre-eminent global fashion industry resource serving a five-million-strong community from over 200 countries and territories. Previously, he was a consultant at McKinsey in London.



ACHIM BERG

Based in Frankfurt, Achim Berg leads McKinsey's Global Apparel, Fashion & Luxury group and is active in all relevant sectors including clothing, textiles, footwear, athletic wear, beauty, accessories and retailers spanning from the value end to luxury. As a global fashion industry and retail expert, he supports clients on a broad range of strategic and top management topics, as well as on operations and sourcing-related issues.



ANITA BALCHANDANI

Anita Balchandani is a Partner in McKinsey's London office, and leads the Apparel, Fashion & Luxury group in the United Kingdom. Her expertise extends across fashion, health and beauty, specialty retail and e-commerce. She focuses on supporting clients in developing their strategic responses to the disruptions shaping the retail industry and in delivering customer and brand-led growth transformations.



SASKIA HEDRICH

As global senior expert in McKinsey's Apparel, Fashion & Luxury group, Saskia Hedrich works with fashion companies around the world on strategy, sourcing optimisation, merchandising transformation, and sustainability topics — all topics she is also publishing about regularly. Additionally, she is involved in developing strategies for national garment industries across Africa, Asia, and Latin America.



FELIX RÖLKENS

Felix Rölkens is part of the leadership of McKinsey's Apparel, Fashion & Luxury group and works with apparel, sportswear and pure play fashion e-commerce companies in Europe and North America, on a wide range of topics including strategy, operating model and merchandising transformations.



ROBB YOUNG

As global markets editor of The Business of Fashion, Robb Young oversees content from Asia-Pacific, the Middle East, Latin America, Africa, the CIS and Eastern Europe. He is an expert on emerging and frontier markets, whose career as a fashion editor, business journalist, author and strategic consultant has seen him lead industry projects around the world.



JAKOB EKELØF JENSEN

Jakob Ekeløf Jensen is a consultant in McKinsey's London office, specialising in Apparel, Fashion & Luxury. He has supported several global fashion companies as well as investors looking at fashion assets across Europe, on topics including e-commerce, strategy, value creation and M&A.

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It's Time to Rewire the Fashion System.

Fashion executives and business leaders are currently focusing on crisis management and contingency planning, but eventually we must shift towards re-imagining our industry altogether. How will dramatic shifts in the global economy and consumer behaviour in the post-coronavirus world impact fashion and what can be done to rewire a fashion system that is no longer working?

Even before the coronavirus disrupted financial markets, upended supply chains and crushed consumer demand across the global economy, fashion industry leaders were not optimistic about 2020. The industry was already “On High Alert” and executives expressed pessimism across all geographies and price points in our annual report, *The State of Fashion 2020*, released late last year. But fast forward a few months and fashion’s outlook has gotten dramatically and suddenly bleaker. As an industry, we are now on red alert.

The crisis is affecting our daily lives, instilling anxiety and uncertainty in the minds of almost everyone.

This unforeseeable humanitarian and financial crisis has rendered previously planned strategies for 2020 redundant, leaving fashion businesses exposed or rudderless as their leaders

confront a disorientating future and vulnerable workers face hardship and destitution. With this special Coronavirus Update to *The State of Fashion 2020*, we have taken a stance on what our “new normal” will look like in the aftermath of this black swan event, analysing surveys, data and expert interviews to provide insight for fashion professionals as they embark on the 12- to 18- month period after the dust settles.

The Black Swan and Fashion

Covid-19 could spur the biggest economic contraction since World War II, hitting every sector from finance to hospitality.¹ Yet fashion, due to its discretionary nature, is particularly vulnerable. The average market capitalisation of apparel, fashion and luxury players dropped almost 40 percent between the start of January and March 24, 2020² — a much steeper decline than that of the overall stock market.

Humanitarian repercussions are expected to outlast the pandemic itself. Dire consequences for fashion, one of the biggest industries in the world generating \$2.5 trillion in global annual revenues³ before the pandemic hit, entails joblessness or financial hardship for people across the value chain — from those harvesting the fibres used to make textiles to shop assistants selling the finished fashion product.

We estimate that revenues for the global fashion industry (apparel and footwear sectors) will contract by 27 to 30 percent in 2020 year-on-year, although the industry could regain positive growth of 2 to 4 percent in 2021.⁴ For the personal luxury goods industry (luxury fashion, luxury accessories, luxury watches, fine jewellery and high-end beauty), we estimate a global revenue contraction of 35 to 39 percent in 2020 year-on-year, but positive growth of 1 to 4 percent in 2021.⁵ If stores remain closed for two months, McKinsey analysis approximates that 80 percent of publicly listed fashion companies in Europe and North America will be in financial distress. Combined with the McKinsey Global Fashion Index (MGFI) analysis, which found that 56 percent of global fashion companies were not earning their cost of capital in 2018, we expect a large number of global fashion companies to go bankrupt in the next 12 to 18 months.

It is in the developing world, where healthcare systems are often inadequate and poverty is rife, that people will be hit the hardest. For workers in low-cost sourcing and fashion manufacturing hubs such as Bangladesh, India, Cambodia, Honduras and Ethiopia, extended periods of unemployment will mean hunger and disease.

The interconnectedness of the industry is making it harder for businesses to plan ahead. Just as China inched through recovery, outbreaks worsened in Europe and the US. But it is in the developing world, where healthcare systems are often inadequate and poverty is rife, that people will be hit the hardest. For workers in low-cost sourcing and fashion manufacturing hubs such as Bangladesh, India, Cambodia, Honduras and Ethiopia, extended periods of unemployment will mean hunger and disease.

Though the duration and ultimate severity of the pandemic remains unknown, it is apparent that the fashion industry is just at the beginning of its struggle.

The crisis is affecting our daily lives, instilling anxiety and uncertainty in the minds of almost everyone. Indeed, consumer pessimism about the economy is widespread, with 75 percent of shoppers in the US and Europe believing that their financial situation will be impacted negatively for more than two months.⁴

Though the duration and ultimate severity of the pandemic remains unknown, it is apparent that the fashion industry is just at the beginning of its struggle. By causing blows to both supply and demand, the pandemic has brewed a perfect storm for the industry: a highly integrated global supply chain means companies have been under immense strain as they tried to manage crises on multiple fronts as lockdowns were imposed in rapid succession halting manufacturing in China first, then Italy, followed by countries elsewhere around the world.

A freeze on spending is aggravating the supply-side crisis. Widespread store closures for an industry reliant on offline channels, coupled with consumer instinct to prioritise necessary over discretionary goods, hit brands' bottom lines

INTRODUCTION

and depleted cash reserves. Even online sales have declined 5 to 20 percent across Europe, 30 to 40 percent in the US and 15 to 25 percent in China.⁵

Once the Dust Settles

Once the dust settles on the immediate crisis, fashion will face a recessionary market and an industry landscape still undergoing dramatic transformation. We expect a period of recovery to be characterised by a continued lull in spending and a decrease in demand across channels. As noted in our previous reports with themes on “Getting Woke,” “Radical Transparency” and “Sustainability First,” the consumer mindset was already showing signs of shifting in certain directions before the pandemic.

The coronavirus also presents fashion with a chance to reset and completely reshape the industry’s value chain — not to mention an opportunity to reassess the values by which we measure our actions.

Now, the resulting “quarantine of consumption”⁶ could accelerate some of these consumer shifts, such as a growing antipathy toward waste-producing business models and heightened expectations for purpose-driven, sustainable action. Meanwhile some of the shifts we will witness in the fashion system such as the digital step change, in-season retail, seasonless design and the decline of wholesale are mostly an acceleration of the inevitable — things that would have happened further down the road if the pandemic had not helped them gain speed and urgency now.

The coronavirus also presents fashion with a chance to reset and completely reshape the industry’s value chain — not to mention an opportunity to reassess the values by which we measure our actions. We expect that themes of digital acceleration, discounting, industry consolidation and corporate innovation will be prioritised

once the immediate crisis subsides. Even after witnessing waves of insolvencies, industry leaders will need to get comfortable with uncertainty and ramp-up their future-proofing efforts as the potential for further outbreaks and lockdowns loom.

No company will get through the pandemic alone, and fashion players need to share data, strategies and insights on how to navigate the storm.

This will also be a time for collaboration within the industry — even between competing organisations. No company will get through the pandemic alone, and fashion players need to share data, strategies and insights on how to navigate the storm. Brands, suppliers, contractors and landlords should also find ways to share the burden.

This joint report by The Business of Fashion and McKinsey & Company is an effort to advance the discussion beyond crisis management and immediate contingency planning, by outlining the areas where the industry must focus once the dust settles on the current crisis. Exactly when this will happen is impossible to know for sure, except that it will, in all likelihood, be linked to the discovery of a workable antiviral treatment and delivery of a proven vaccine, which some experts say is at least 12 to 18 months away.

Navigating this uncertainty will not be easy for fashion leaders. Players need to be decisive and start putting recovery strategies into motion to emerge with renewed energy. The crisis is a catalyst that will shock the industry into change — now is the time to get ready for a post-coronavirus world.

FIVE THEMES FROM THE CORONAVIRUS UPDATE

GLOBAL ECONOMY

01.

Survival Instincts

Recovery from the pandemic will coincide with a recessionary market, compelling fashion players to ramp up resilience planning and adapt their operating models. Companies surviving the immediate crisis will have made bold and rapid interventions to stabilise their core business before seeking out new markets, strategic opportunities and future pockets of growth in a global fashion industry undergoing dramatic transformation.



Percentage of fashion industry employees who perceive their company's **planning for recovery post-crisis response as ineffective**

CONSUMER SHIFTS

02.

Discount Mindset

As deep discounting plagues retailers for the remainder of 2020, a decade-long build-up of bargain shopping culture will be exacerbated by a rise in anti-consumerism, a glut in inventory and cash-strapped consumers looking to trade down or turn to off-price channels. To reach increasingly frugal and disillusioned consumers, brands must find inventive ways to regain value and rethink their broader business mission.



Percentage of consumers who said **special promotions** were an important factor when shopping for clothes in the 4 weeks leading up to 29 March 2020

03.

Digital Escalation

Social distancing has highlighted the importance of digital channels more than ever and lockdowns have elevated digital as an urgent priority across the entire value chain but, unless companies scale up and strengthen their digital capabilities in the recovery phase of the crisis, they will suffer in the longer term. Consumers will continue to demand more in this space and brands must act fast to deliver.



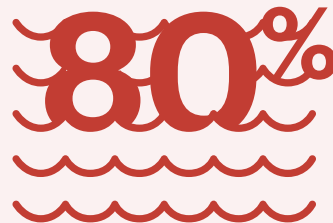
Year-on-year **increase in livestreaming** on Chinese e-commerce website Taobao since the outbreak of Covid-19

FASHION SYSTEM

04.

Darwinian Shakeout

The crisis will shake out the weak, embolden the strong and accelerate the decline of companies that were already struggling before the pandemic, leading to massive waves of consolidation, M&A activity and insolvencies. To secure their future, companies must adapt to the new market environment by evaluating divestment and acquisition opportunities to strengthen their core and capture whitespaces that emerge from the reshuffle.



Percentage of fashion companies who would be in **distress after more than 2 months of store closures**

05.

Innovation Imperative

To cope with new restrictions, mitigate the damaging impact of the pandemic and adapt to economic and consumer shifts, companies must introduce new tools and strategies across the value chain to future-proof their business models. Fashion players must harness these innovations and scale up those that work in order to make radical and enduring changes to their organisations — and to the wider industry — after the dust settles.



The fashion value chain has been disrupted **leading to rapid scaling up of innovation – from digital design to social commerce**

The background is a solid medium blue color. Scattered across it are several dark blue geometric shapes: circles, rectangles, and lines of varying sizes and orientations. Some shapes are partially cut off by the edges of the frame. The overall aesthetic is modern and minimalist.

GLOBAL ECONOMY

01. SURVIVAL INSTINCTS

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Recovery from the pandemic will coincide with a recessionary market, compelling fashion players to ramp up resilience planning and adapt their operating models. Companies surviving the immediate crisis will have made bold and rapid interventions to stabilise their core business before seeking out new markets, strategic opportunities and future pockets of growth in a global fashion industry undergoing dramatic transformation.

If macroeconomic headwinds weren't already nudging businesses to reassess their position on a whole host of priorities, the coronavirus pandemic is now forcing companies across many sectors to make urgent, existential decisions. The global fashion industry is no different, with almost all companies battling lacklustre consumer confidence, foregone revenues and stores on lockdown.

Fashion companies — particularly those relying on longer lead times and inflexible supply chains — are uniquely vulnerable due to the category's discretionary nature. Indeed, fashion may face a harder time than discretionary goods overall: more than 70 percent of European and US consumers expect to cut back spending on apparel⁷ compared to a 40 to 50 percent drop in global discretionary spending.⁸

A two- to three-month lockdown will cause financial distress for 80 percent of European and North American fashion businesses, as volatility reduces investor confidence in a stock market facing its hardest hit since the global financial crisis of 2008.⁹

As the dust settles, the luxury sector may suffer more than other segments. This is due to the luxury sector's reliance on travel retail (20 to

30 percent of industry revenue is generated from luxury purchases made outside consumers' home countries),¹⁰ in addition to lower levels of online presence and high dependency on department stores and experiential in-store retail. For example, in March LVMH announced a 20 percent drop in quarterly revenue as a result of the Covid-19 outbreak.¹¹ While the extent of the damage remains unclear, 2020 is already shaping up to be "the worst year in the history of modern luxury,"¹² said Luca Solca, investment research analyst at Bernstein.

A two- to three-month lockdown will cause financial distress for 80 percent of European and North American fashion businesses, as volatility reduces investor confidence in a stock market facing its hardest hit since the global financial crisis of 2008.

Consumption shifts already evident in countries from China to the US will be echoed across most major global markets. In the US, 56 percent

of consumers surveyed in McKinsey & Company's Covid-19 Consumer Pulse Survey said they are cutting back on spending, while 48 percent agreed that economic uncertainty is preventing them from committing to purchases they would otherwise have made.¹³ With the US reporting a record 6.6 million unemployment claims filed in one week between March 22 and 28,¹⁴ and Chinese unemployment figures at a record 5.7 percent in February, discretionary spending will take a backseat.

In the event that a vaccine is developed, some shoppers in certain markets might respond with a momentary “euphoric” spike in consumption, suggested Solca. This is similar to murmurings in China of a potential return of so-called “revenge buying,” in which consumers may salve the wound of a months-long lockdown with feel-good spending. But “[if] we don’t manage to vanquish the threat of Covid-19...the shape of recovery will be more subdued,” he said.¹⁵

Amid the health crisis, some digitally adept offerings and business models created pockets of positive momentum by cutting out middlemen and optimising e-commerce capabilities to reach self-isolating shoppers. At the same time, a “wellness dividend” has provided a boost for some hygiene- and health-orientated products and brands that have capitalised on the shift in consumer attention to safety, health and wellness. However, an indiscriminatory downturn in consumer appetite for discretionary purchases awaits even the savviest players, meaning any momentary uptick in sales will not be able to offset a decline in spending across the board.

While the duration of the pandemic remains uncertain, recovery will most likely be gradual. Consumer sentiment took up to two years to return to normal after previous global crises: recovery from the 2003 SARS pandemic, 9/11 and the 2008 financial crisis took 6 months, 1.5 years and 2 years respectively.¹⁶

There are multiple possible scenarios for how the fallout will unfold, hinging on the effectiveness

of different plays of pandemic containment and the ensuing economic response. The McKinsey Global Institute (MGI) describes four different scenarios for the crisis to develop (see Exhibit 1). In each scenario, the spread of Covid-19 is eventually controlled and catastrophic structural economic damage is avoided. Scenarios form a V-shape if economic rebound is strong, and a U-shape if economic recovery is slower. The recovery curves are distinguished further by the speed and effectiveness of the virus containment.¹⁷ However, any scenario will likely disproportionately affect the fashion industry given its discretionary nature, and the industry's recovery will lag behind the rest of the economy.

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As we have seen in China, the re-opening of physical retail does not mean business returns back to “normal.” When 90 percent of apparel stores re-opened in China, footfall and purchases were still 50 to 60 percent below pre-crisis levels.¹⁸ Furthermore, each country will see varying recovery phases depending on their healthcare systems, financial resources and immediacy of response to the outbreak. For fashion, a rapid return of consumer confidence is especially important to restore the value chain.

We expect markets where the “dust has begun to settle,” such as China and South Korea, to experience a quick recovery unless there are second waves of outbreaks. Although fears of a second wave in China are constant, with worrying signs of new small-scale outbreaks around the country at the time of writing.¹⁹ Developing countries in Asia, such



as India and Indonesia, have been severely hit by the lockdown of production facilities, leaving millions without jobs and weakening their position in the global value chain. Similarly, we expect markets that have been under economic distress before the crisis — such as Venezuela and Nigeria — to require more time to restore growth, owing to their inherent political instability.

In the west, there will be different rates of return of consumer confidence based on the speed and effectiveness of government support and how severely hit the country has been by the pandemic, with countries like Italy, Spain and France potentially faring worse than Germany.

Looking ahead, businesses will have to review their operating models. While implementing short-term interventions — like cutting costs and production, securing liquidity and adjusting product assortments, which have been the highest priority in urgent reactions to the crisis — companies now need to consider actions for the recovery period and implement resiliency into their planning.

In the west, there will be different rates of return of consumer confidence based on the speed and effectiveness of government support and how severely hit the country has been by the pandemic.

Companies must adopt a recovery position based on impact severity to help prepare for the deployment of a recovery action plan. This means reassessing their geographical footprint, store network and growth opportunities, while also looking for any emerging whitespace, be it during recovery or an extended crisis period. In The State of Fashion 2020 report, the biggest growth was predicted for emerging Asia, with rising opportunities in India and Southeast Asian nations like Indonesia.²⁰ However, the preservation of these

growth opportunities will depend largely on the way each country manages the pandemic. With a humanitarian crisis unfolding in emerging markets like India, fashion players will now need to re-evaluate strategies for which stores to re-open and when, and how their supply chain can best support the ramp-up.

Companies must adopt a recovery position based on impact severity to help prepare for the deployment of a recovery action plan.

In the event that collateral economic damage from the pandemic continues for an extended period of time, brands should review cost bases to identify measures for quick wins, set up employee plans to assess workforce decisions, and rationalise overhead spend to plan for potential store closures. On the supply chain side, fashion companies should learn from this global trade disruption that the value chain must be re-invented. This includes reviewing production regularly to identify potential disruptions before they happen in order to cushion the blow when they come to pass and strengthening regional integrated supply chains. It also means exploring nearshoring activities to bring flexibility and autonomy to their production facilities. Broadly speaking, non-core assets and activities should be divested and stopped to streamline current offerings and ensure efficient execution.

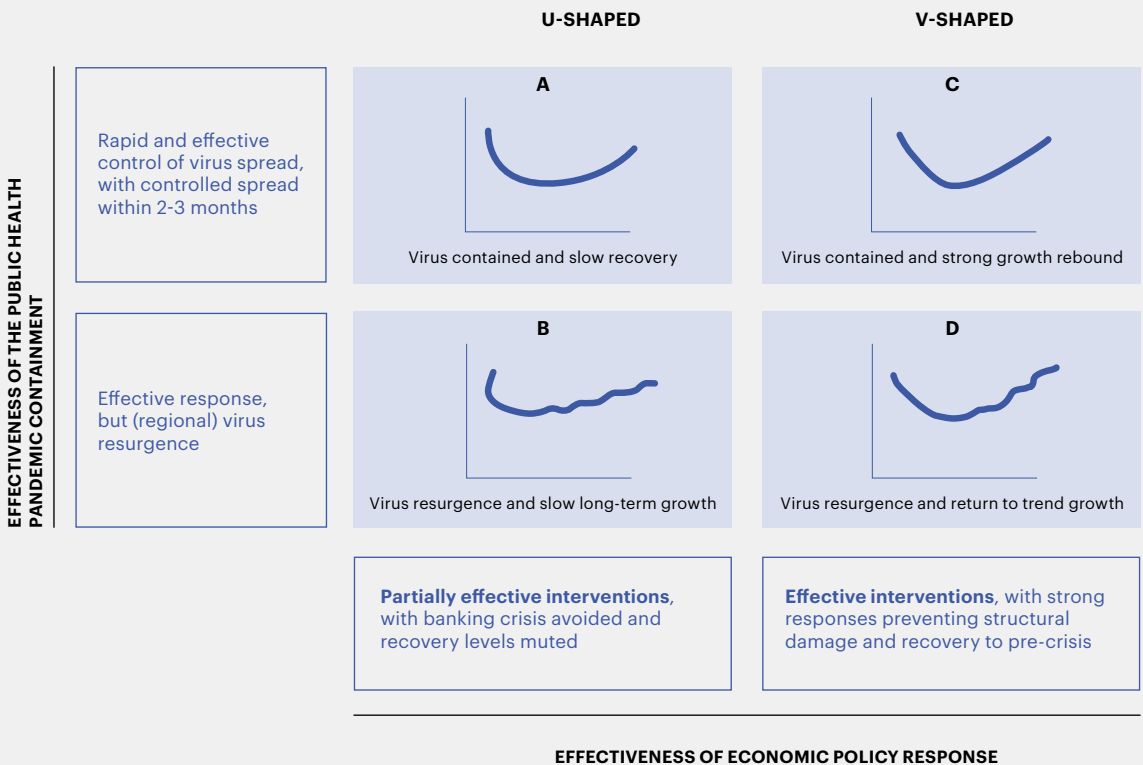
Speed and adaptability are of the essence for this crisis. But when the first signs of normalcy do begin to emerge, companies are cautioned not to be complacent. Instead, they must double-down on recovery and resiliency measures for this will be a time of unprecedented transformation for the global fashion industry. Only then can companies begin to decipher what their “new normal” actually looks like.

01. SURVIVAL INSTINCTS

Exhibit 1:

GDP impact is heavily dependent on different plays around pandemic containment and economic response policy

GDP IMPACT OF COVID-19 SPREAD BASED ON PUBLIC HEALTH RESPONSE AND ECONOMIC POLICIES



SOURCE: "SAFEGUARDING OUR LIVES AND OUR LIVELIHOODS: THE IMPERATIVE OF OUR TIME", MCKINSEY & COMPANY, MARCH 2020

The background is a solid teal color. It is decorated with several large, irregular, organic shapes in a mustard yellow color. One large shape is at the top right, another is on the left side, and a very large one is at the bottom. There are also smaller shapes scattered around.

CONSUMER SHIFTS

02. DISCOUNT MINDSET

03. DIGITAL ESCALATION

02. DISCOUNT MINDSET

As deep discounting plagues retailers for the remainder of 2020, a decade-long build-up of bargain shopping culture will be exacerbated by a rise in anti-consumerism, a glut in inventory and cash-strapped consumers looking to trade down or turn to off-price channels. To reach increasingly frugal and disillusioned consumers, brands must find inventive ways to regain value and rethink their broader business mission.

Consumer sentiment is at an all-time low. This has hit the fashion industry especially hard due to the discretionary nature of clothing purchases. In Europe and the US, more than 65 percent of consumers expect to decrease their spending on apparel, while only 40 percent expect to decrease total household spending (see Exhibit 2).²¹ What's more, 56 percent of consumers state that their main reason for purchasing clothing during the crisis was special promotions.²²

In Europe and the US, more than 65 percent of consumers expect to decrease their spending on apparel, while only 40 percent expect to decrease total household spending.

Some experts predict that consumer sentiment may never recover to pre-2020 levels as anti-consumerism and economic fallout cast a shadow over global markets, and shoppers are hit hard by a global recession. As of March 2020, 60 percent of consumers in the US already reported that they need to be careful how they spend their money, with more than one-third stating that the pandemic is even impacting their ability to make financial ends meet.²³

As a result, overfilled warehouses laden with unsold seasonal stock will haunt most players, as long lead times weigh heavily on fashion's supply chain and global consumer appetite for discretionary purchases wavers. Companies will turn to steep discounting to clear inventory for the rest of the year at a minimum, with a risk that "the contagion of deep discounting could spread as quickly as the disease"²⁴ throughout the industry, reminiscent of the discounting culture that took hold during the 2008 financial crisis and has dogged the industry ever since.

Some retailers in the US estimate that a majority of spring inventory will be leftover due to store closures and a dip in online traffic, conversions and consumer sentiment. Following the imposition of lockdowns across most of Europe and the US, some brands and retailers have stopped fulfilling e-commerce orders entirely, while many of those who remain up and running have resorted to flash and mid-season sales to increase demand. In Italy, the number of items on discount is up 20 percent year-on-year.²⁵

Seasonless stock like intimates is less exposed and can be repurposed later in the year, but most mass-market players will be left with little alternative to slashing prices, with other inventory-reduction plays, such as controversial

CONSUMER SHIFTS

stock incineration, no longer feasible in times of heightened transparency and sustainability-conscious consumers.

Even after the dust settles, financial turmoil stemming from the crisis will continue. McKinsey and Oxford Economics analysis shows that, even in the most positive economic recovery scenario, GDP will only return to pre-crisis levels by the end of 2020, or even the beginning of 2021.²⁶ As consumer spending in most advanced economies accounts for roughly two-thirds of the economy, and about half of that is discretionary spend, fashion companies will be left grappling with price deflation and a sharp drop in demand across the board. Evidence from previous crisis shows that it may take up to two years to fully restore consumer confidence,²⁷ with early numbers from China showing that apparel sales were still down by 50 to 60 percent in the first month after stores re-opened.²⁸

We expect different market categories to be impacted by the discounting wave to varying degrees. Mid-market brands and retailers will be hit hardest, as cash-strapped shoppers trade down to the value segment for essentials and middle-class consumers turn more to heavily discounted affordable luxury and premium goods.

In the luxury segment, we expect consumers to return more quickly to paying full price for quality, timeless goods, as was the case after the 2008 financial crisis.

In the luxury segment, we expect consumers to return more quickly to paying full price for quality, timeless goods, as was the case after the 2008-2009 financial crisis. For luxury brands, however, the discounting challenge is exacerbated by the need to preserve reputation and image, making it crucial to avoid steep discounting, or at least discount in a more controlled way through off-price channels. Brands will need to find innovative ways to

work with wholesalers and e-tailers — which might even include inventory swaps to prevent them from discounting their products.²⁹ (Multi-brand retailer Net-a-Porter had 30 percent of its assortment on markdown as of March 2020, compared to only 1 percent in 2019).³⁰ As boutiques struggle with store closures and overstock problems, and as grey market counterparts in countries such as China cancel orders, marketplace model e-tailers like Farfetch will be well-positioned to facilitate the liquidation of large volumes of cheap stock. This will create tensions with brand-owners, however, as they will want to take a more discreet approach.

The pandemic will bring values around sustainability into sharp focus, intensifying discussions and further polarising views around materialism, over-consumption and irresponsible business practices.

Moving forward, the “off-price deception” trend witnessed in The State of Fashion 2018 report — which highlighted the danger of off-price cannibalising full-priced sales — will soon reach a new phase, as growth in the discount sector puts companies at risk of margin erosion. Premium discount retailers with effective merchandising and strong customer service, like The Outnet and Yoox online and McArthurGlen offline, will become mainstream by offering discreet and large-scale avenues for excess stock disposal. As in 2008, new digital players will also emerge to seize the opportunity to dispose of excess stock. But caution is advised: for companies engaging with a growing cohort of anti-consumerist shoppers, significant discounting and traffic driving could be construed as tone deaf.

The pandemic will bring values around sustainability into sharp focus, intensifying discussions and further polarising views around

02. DISCOUNT MINDSET

materialism, over-consumption and irresponsible business practices. Retailers have already come under fire for keeping stores open and putting retail workers in danger during outbreaks in the US, where many lack healthcare benefits.³¹ Meanwhile, some players who stopped paying rent to stay liquid have faced public backlash and have consequently reversed their actions to regain customer trust, while public outcry about unpaid order cancellations of finished garments in production has forced some global players to revise their actions. The focus on sustainability will be especially prominent for Gen-Z and Millennial shoppers, whose concerns for the environment were already heightened pre-crisis. As we stated in The State of Fashion 2019 report trend “Getting Woke,” consumers will make or break brands based on trust — a trend that is now further intensified.

“The virus, I think, can be seen as a representation of our conscience... it brings to light what is so terribly wrong with society and every day that becomes more clear,” said Trend Forecaster Li Edelkoort. “It teaches us to slow down and to change our ways.”³²

This may signal the end of “extreme consumerism” for some consumers who reject the idea of buying goods in large volumes. According to a McKinsey survey, 15 percent of consumers in the US and Europe expect to buy more ecologically and socially sustainable clothing.³³ Brands that are able to reorient their missions and business models in more sustainable ways will be able to cater to a more captive audience than ever before.

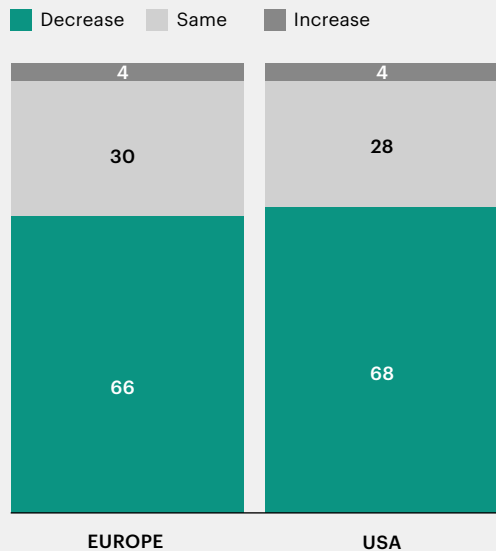
Fashion players may also turn to more innovative ways to reduce stock and reinfuse value into their products, such as accelerating nascent sustainability trends. For many players, repurposing existing stock for new seasons will be a more viable option than recycling or upcycling with fabric additions or extractions. Other opportunities include personalisation, customer experience and a re-evaluation of the company’s fashion calendar, such as moving monthly drops into later seasons.

To improve their long-term outlook, brands will need to tailor future discounting strategies by aligning promotions to their various channels and putting in place a revised product calendar to reflect fashion’s “new normal.” They will also need to reinfuse value to make it worthwhile for consumers to shop at full price. The solution is not just about reducing overstock but gaining back the trust and enthusiasm of cash-strapped consumers — and that cannot be achieved by discounting alone.

Exhibit 2:

A significant drop in consumer spend on apparel will result in massive inventory build-ups

CONSUMERS’ EXPECTED CHANGE IN SPEND ON APPAREL ‘IN NEXT 2 WEEKS’
PERCENT OF RESPONDENTS



SOURCE: MCKINSEY & COMPANY COVID-19 CONSUMER PULSE, 20 - 29 MARCH 2020

03. DIGITAL ESCALATION

Social distancing has highlighted the importance of digital channels more than ever and lockdowns have elevated digital as an urgent priority across the entire value chain but, unless companies scale up and strengthen their digital capabilities in the recovery phase of the crisis, they will suffer in the longer term. Consumers will continue to demand more in this space and brands must act fast to deliver.

If ever there was a time to turbocharge digital, it is now. The global pandemic's shutdown of offline retail channels has pushed digitally inept fashion companies to the brink. With no or limited avenues to recover lost sales, purely offline players whose revenues hinge on brick-and-mortar sales have been hit hardest. Many multi-channel businesses have had their first glimpse of what it takes to be truly digital-first, and this step change in consumer adoption is likely to stick when we emerge from the crisis.

Almost overnight, the global fashion industry's reliance on digital channels has accelerated faster than anyone could have anticipated prior to the crisis. This could spell trouble for department stores and speciality retail, in addition to smaller players incapable of adapting to a digital-first mentality.

But there is a silver lining emerging in Asia. Evidence from China suggests that consumers there increasingly embraced digital solutions for shopping, entertainment and communications thanks to the response of brands and retailers who quickly enhanced their digital capabilities by launching or improving innovative new channels. Nike — whose digital sales in the region grew 36 percent in the

third quarter ended February 29³⁴ — leveraged Taobao livestream bloggers during lockdown in China, while local fashion group Peacebird grew retail sales as a result of innovative customer engagement on their digital channels including WeChat, which featured over 41 live broadcasting sessions with influencers and drew 1.77 million consumers.³⁵

Consumers increasingly embraced digital solutions for shopping, entertainment and communications thanks to the response of brands and retailers who quickly enhanced their digital capabilities by launching or improving innovative new channels.

Social media platforms in the region have also seen pockets of momentum and have delivered much-needed solutions for some brands and retailers. WeChat saw a 159 percent boost in transaction volume for fashion brand mini-programmes (brand-powered app-in-apps embedded

03. DIGITAL ESCALATION

within its interface) between January and February 2020 during the peak of China's outbreak.³⁶ WeChat offers features that allow store assistants to message consumers and complete purchases, generating a much-needed revenue source for brands operating in the quagmire of a crisis. Through WeChat Groups and WeChat Work, companies are able to engage clients and integrate their profiles into their brand's account.

Other digital solutions used by retail assistants during the lockdown in China included livestreaming sessions on WeChat or platforms such as Yizhibo, which effectively turned empty luxury brand stores into virtual shopping stages hosted by the staff. As seen on apps like Xiaohongshu and Taobao, brand-to-shopper video chats and broadcasted influencer-curated assortments were well-received, with the number of Chinese brands livestreaming on Taobao up by 700 percent.³⁷

In March 2020, executives like Giovanni Pungetti, Greater China and APAC chief executive of OTB Group, which controls brands Marni, Diesel and Maison Margiela, embraced experiments with livestream commerce.³⁸ "It's a completely different way of doing business for us [but] we have been able to reach every corner of China [and] we have been able to make some business," he said. "I always underline this to our shareholders in Italy: everything we are learning in this moment...will be an added weapon we can use to increase and grow [more broadly elsewhere] when things get back to normal," he added.

"It's a completely different way of doing business for us but we have been able to reach every corner of China and we have been able to make some business."

For strong players looking to accelerate demand online, staying ahead of fashion's digital step change will mean adopting these next-level

modes of engagement. People will acclimate to the wider digitisation of consumer journeys as digital content creation becomes their primary mode of brand interaction. According to a McKinsey survey, almost a quarter of US and European consumers expect to increase their spend via social channels in April 2020.³⁹ As the crisis also pushes 13 percent of European consumers to browse online e-tailers for the first time,⁴⁰ brands should take the opportunity to become not just more digitally adept, but to become digital frontrunners.

As the crisis also pushes 13 percent of European consumers to browse online e-tailers for the first time, brands should take the opportunity to become not just more digitally adept, but to become digital frontrunners.

"Working from home or staying at home may well drive more non-work screen time, which would give marketers additional shots on goal," said Simeon Siegel, managing director and senior analyst at BMO Capital. However, marketing opportunities may not translate into much-needed revenue. "Whether they convert is another story," he said.⁴¹

Indeed, the broader outlook for online is challenging. Despite the aforementioned uptick in social commerce, 44 percent of US and European consumers expect to decrease online purchases overall, which is not far behind the 49 percent who expect to decrease offline purchases as of April 2020.⁴²

Though much about the pandemic's duration and trajectory remains uncertain, businesses can expect that recovery will be a gradual process as society adjusts to the new normal, consumers continue to avoid large crowds and social distancing rules remain in force. Even after stores begin to re-open, fashion's digital step change demands

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that companies change their mindset and begin to operate like pure digital players: rather than asking what benefits online can offer offline channels, players should ask how their brick-and-mortar presence can support e-commerce sales. Digital plans should be prioritised when it comes to talent, time, allocated inventory and future investments, and marketing spend should be shifted to digital channels, with ROI precisely tracked.

The strongest players will quickly scale up and strengthen their digital capabilities, which will allow them to capitalise on future opportunities and protect their businesses from risks. Investing more in existing digital capabilities — such as improving the customer journey and the broader customer experience — should happen alongside pioneering new ways of engaging with consumers online. Livestreaming services, omnichannel inventory capabilities and social commerce platforms are just the tip of the iceberg.

Digital strategies should also closely inform partnerships and brand positioning at every stage. Brands should consider platforms as a way of preserving their reach and fulfilment capability, while identifying a suitable digital model that will lay the groundwork to build traffic in cost-efficient ways. The window of opportunity to invest and leap forward will not last forever.

Since digital channels can be less profitable than physical retail, players need to establish a balanced model that prioritises digital growth in an integrated way with cutting-edge customer experience.

For consumers, the rapid and recent pivot to digital will continue long after the immediate crisis, but for most fashion players, it will come at a cost. Since digital channels can be less profitable than physical retail, players need to establish a balanced

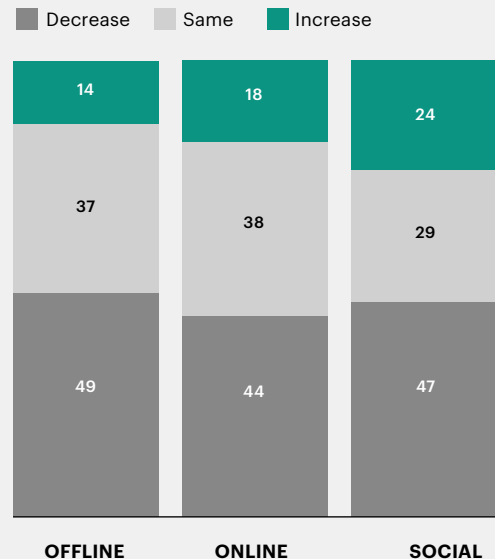
model that prioritises digital growth in an integrated way with cutting-edge customer experience. It is important to remember that digital channels are not a “silver bullet” to compensate for the shortfall in revenue from stores — in making this switch, some businesses may become smaller, at least for a while, which will open up the need to revisit their operating model as they adjust to the new reality.

Exhibit 3:

Consumers expect to spend more via online and social channels than through offline channels in light of the Covid-19 outbreak

ANTICIPATION OF SHOPPING HABITS ACROSS DIFFERENT CHANNELS IN APRIL 2020, WESTERN EUROPE AND THE US

PERCENT OF RESPONDENTS



SOURCE: MCKINSEY & COMPANY COVID-19 APPAREL & FASHION SURVEY, 27 - 29 MARCH 2020



For Luxury, an Acceleration of the Inevitable

Will the coronavirus pandemic change the way consumers shop forever? When it comes to the market for personal luxury goods, expect behaviour to shift far more quickly than anticipated.

by *Lauren Sherman*



The State of Fashion 2020 — Coronavirus Update

Chanel luxury clothing store closed in Turin, Italy during the nationwide lockdown to control the coronavirus pandemic. Stefano Galdi/Getty Images

It's true that the House of Chanel survived multiple world wars, the stock market crash of 1988, the Great Recession, and many other world-changing, life-altering events. So did Gucci, Louis Vuitton and Prada. But the modern luxury industry as we know it — where brands are multi-billion dollar powerhouses, employing hundreds of thousands of people across the globe, up and down the supply chain — has only really existed for the past 30 years,

when LVMH's marquee brands began swelling in size, and competitors like Kering and Richemont began building their own formidable stables.

In many ways, the coronavirus pandemic is the first global crisis that will deeply impact the sector since the industry morphed into a virtual oligopoly. How will it fare? The short answer: expect the expected, and at lightning speed.

During the Great Recession from 2008 to

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2009, the worst economic downturn in US history since the Great Depression of the 1930s, the luxury market was disproportionately impacted, contracting 8 percent globally compared to the overall apparel market's 5 percent shrinkage. Because personal luxury goods are discretionary purchases, consumers tend to abandon them first, especially from brands that have not developed an emotional reason for existing in the eyes of the consumer.

However, after that downturn, the luxury industry bounced back more strongly than perhaps anyone could have anticipated. At the end of 2019, LVMH, which owns brands including Louis Vuitton, Christian Dior and Celine, became the second most-valued company in Europe, following oil and gas giant Royal Dutch Shell, with a market capitalisation passing the €200 billion mark (\$217.9 billion).⁴³ That same year, the group, which now includes more than 70 brands across categories such as wine and spirits, jewellery and watches, travel and fashion, generated €53.7 billion (\$58.5 billion) in revenue, up 15 percent year-over-year. Its closest rival, Kering, generated €15.9 billion (\$17.3 billion), up 16 percent from a year earlier.

In many ways, the coronavirus pandemic is the first global crisis that will deeply impact the sector since the industry morphed into a virtual oligopoly.

More than a decade after the Great Recession ravaged the global economy, the luxury industry is now facing an even greater threat: a pandemic that has halted nearly all trade in a large part of the world.

The next six months may be far more damaging to luxury than the previous downturn, with several struggling players — mostly debt-ridden multi-brand retailers and cash-poor independent brands — not making it out the other end. McKinsey estimates that the global industry for personal luxury goods will contract by 35 to 39 percent in 2020 compared to the previous year. However, by

2021, positive growth could return at 1 to 4 percent compared to the 2019 baseline.⁴⁴ For companies that do make it through to see a return to growth, what will the new normal look like?

While it's never been more important to win over China's growing middle class of brand-conscious shoppers, the focus will increasingly be on meeting them locally, not abroad.

Post-downturn, the luxury industry had two levers of growth that cannot be exactly replicated this time around. For one, luxury brands started charging a lot more for the products they sold at full price. In 2000, the starting price for an Hermès Kelly bag was \$4,800. By 2013, it was \$7,600, reflecting a 58 percent increase in 13 years, 1.5 times the rate of inflation during that period.

While raising prices helped boost margins, the Chinese market, which, for most brands, only emerged as a significant source of revenue in the mid-2000s, became the engine of growth. Chinese consumers were responsible for more than half of global luxury growth between 2012 and 2018, and total spend by Chinese consumers is expected to make up 40 percent by 2025, according to a 2019 report by McKinsey.⁴⁵

But while both of those levers can still be pulled, the circumstances driving them are now different. "Over the past three or four years, the consumer's behaviour was changing regardless," said John Idol, chief executive of Capri, the American group that controls Michael Kors, Versace and Jimmy Choo.

The coronavirus pandemic will only accelerate that change.

For instance, while it's never been more important to win over China's growing middle class of brand-conscious shoppers, the focus will increasingly be on meeting them locally, not abroad. There was already a movement toward this, as price

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harmonisation at brands like Chanel made travel retail less attractive.

In 2019, Chinese consumers took more than 150 million trips abroad, with McKinsey estimating that purchases outside the mainland accounted for more than half of China's luxury spend that year.⁴⁶ Now, with travel retail suspended due to international lockdowns, Chinese consumers have no other choice but to shop at home.

"Travelling shoppers will take significantly longer to return," said Pierre Mallevays, founder and managing partner of Savigny Partners LLP, a mergers and acquisitions advisory firm focusing on luxury brands and retail. "This means travel retail and tourist-dependent stores will continue to suffer into 2021."

Brands have never been more incentivised to nurture the local market while retail in other major regions is shut down completely, but that shift will continue once retail operations return to normal globally. "The Chinese will become even more important," said Luca Solca, an investment research analyst at Bernstein. "The Chinese economy should be the least damaged from the crisis." However, not all signs are necessarily pointing in that direction. The World Bank's latest forecast adjusted for Covid-19 impact reveals that China's economic growth is projected to decline from 6.1 percent in 2019 to 2.3 percent in 2020 (in the baseline) and 0.1 percent (in the lower-case scenario).⁴⁷

Self-isolation has also forced another change in behaviour that is likely to remain once the dust settles: more shopping online. "Digital will enjoy a step-up," Solca said. While e-commerce channels are likely to see a boost — as more consumers get comfortable with making high-price purchases online as they remain hesitant to visit crowded public spaces — other channels, like multi-brand retail, are primed for contraction even after lockdowns are lifted. Some luxury stores will not survive the lockdown, as constrained cash flow will make it impossible for them to pay their creditors and clients.

"Channel distribution will weigh even more heavily towards online — and further away from wholesale," he added.

Right now, even retailers specialising in discounted luxury goods are struggling. In the US, American off-price chain Ross, which is similar to TJ Maxx, told vendors it was cancelling orders for up to three months. But come autumn, the discount channel will inevitably get busy, as excess inventory from the first nine months of the year will flood the market. Whether or not the demand will be there remains to be seen.

Many consumers will be looking for so-called "investment" pieces — minimalist, last-forever items, that feel more responsible given the state of the world.

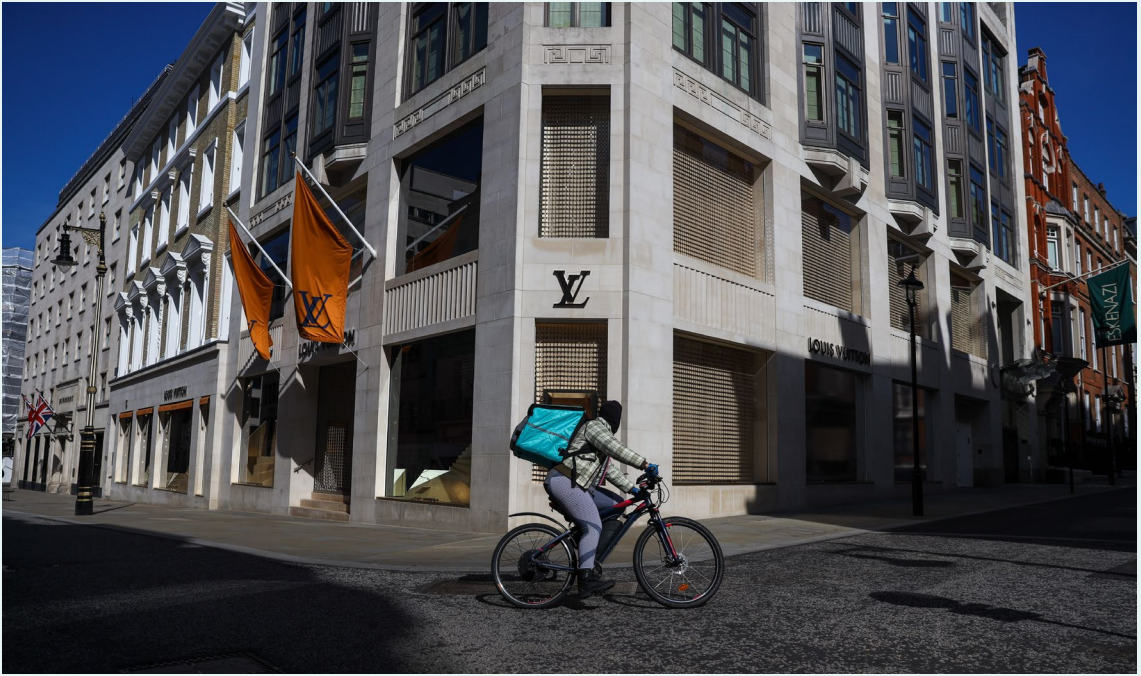
That inventory glut will force brands to be more conservative about their autumn and spring production runs, if they are even able to produce the autumn season at all. What this will likely spur is a move further upstream for more companies, so that they can participate in "reactive" manufacturing, as one luxury executive called it. Companies like Hermès, Chanel, Gucci and Louis Vuitton own their own factories in Italy, France and beyond, which means they can more easily stop and start production.

Luxury consumers are also likely to, at least for the time being, adopt the "fewer, better things" mantra that environmentalists have been advocating over the past decade. While this could spur increased activity in the second-hand and rental channels once fear around the virus contagion subsides, it also means that many consumers will be looking for so-called "investment" pieces — minimalist, last-forever items — that feel more responsible given the state of the world. "Call it cautious consumption," said Mario Ortelli, managing partner of luxury advisors Ortelli & Co. "It will take more to justify a purchase."

There is also a contrary school of thought suggesting that consumers in some market geographies and segments will release pent-up demand once there is light at the end of the tunnel. Instead of restraint, some cohorts in the uber

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Food delivery courier passes a closed Louis Vuitton store. Simon Dawson / Getty Images



wealthy demographic may choose to spend like crazy on decadent, fun, outrageous and exuberant things.

With either scenario in mind, expect an uptick in bespoke shopping experiences both online and off, with customer relationship management tools that allow brands to keep up an ongoing dialogue with each client. “Consumers want their shopping experience to be a bit more tailored to them,” Idol said. “As a part of that, they want their sales associates to really talk to them, think about the way they dress.”

Of course, this new reality will only affect the companies that make it through the next six months. Some companies will go private in order to manage the situation without the pressure of public markets, as may be the case for supply chain giant Li & Fung. But the fallout signals an opportunity for strategic groups like LVMH and Kering, which will have the capital to make further acquisitions of targets that may well be more affordable than they once were when this is all over.

Independently run companies including Moncler and Prada, which have already been subject to takeover rumours for months, may suddenly be

more amenable to such overtures. The same goes for the likes of Salvatore Ferragamo, Brunello Cucinelli and even Ralph Lauren, while mid-sized companies — those with annual revenues in the \$100 to \$500 million range — will struggle to compete against the groups, which control everything from the supply chain down to the retail real estate.

“Consumers want their shopping experience to be a bit more tailored to them. As a part of that, they want their sales associates to really talk to them, think about the way they dress.”

In the post-pandemic era, consolidation of the luxury market will only intensify. Likening the future rush of M&A activity to a possible “tsunami,” Ortelli was quick to point out that the fallout from the coronavirus won’t be a crisis for everyone. For some luxury players it will definitely be “a unique opportunity,” he said.

FASHION SYSTEM

04. DARWINIAN SHAKEOUT

05. INNOVATION IMPERATIVE

04. DARWINIAN SHAKEOUT

The crisis will shake out the weak, embolden the strong and accelerate the decline of companies that were already struggling before the pandemic, leading to massive waves of consolidation, M&A activity and insolvencies. To secure their future, companies must adapt to the new market environment by evaluating divestment and acquisition opportunities to strengthen their core and capture whitespaces that emerge from the reshuffle.

Before Covid-19, fashion was already a “winner-takes-all” industry. Now, even though we are only at the beginning of the pandemic, it is almost certain that the crisis will intensify the industry’s polarising nature. The shutdown of physical retail and the slump in both consumer and investor confidence will irrevocably alter the fashion business landscape by accelerating the decline of struggling companies and buoying stronger empires.

Companies in all categories will be forced to review their positioning in this stark new landscape and, for once, the much-maligned phrase “adapt or die” will not be an overstatement. It will be remembered as a Darwinian moment for the global fashion industry.

34 percent of listed fashion businesses in North America and Europe were displaying signs of financial distress before the coronavirus first broke out.

The stakes are indeed very high. While McKinsey analysis revealed that 34 percent of listed fashion businesses in North America and Europe were displaying signs of financial distress before the

coronavirus first broke out,⁴⁸ we predict that after two to three months of store closures that figure will more than double to over 80 percent.⁴⁹ In fact, the financial market — which could face its biggest economic contraction since the second World War⁵⁰ — is still faring better overall than apparel players, whose valuations and stock prices have plummeted to dramatic lows, with year-to-date losses of more than 40 percent in mid-March.⁵¹

These headwinds will widen the gap between fashion’s winners and losers, with the latter likely to file for bankruptcy, seek government aid, close, or become targets for stronger players or private equity firms. Early indicators of things to come are already playing out on the global stage, with heavily indebted US department store Neiman Marcus reportedly commencing bankruptcy talks,⁵² Hong Kong-based supply chain giant Li & Fung receiving a \$930 million privatisation offer⁵³ and UK retailer Laura Ashley declaring insolvency.

Even before the outbreak began, more than half of the fashion companies in the McKinsey Global Fashion Index (MGFI) were classified as “value destroyers” in The State of Fashion 2020 report — meaning their profit does not exceed their estimated cost of capital — and that number has been growing each year. The pandemic spells more

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trouble for this group, which includes department store giants, high street brands and venture-backed start-ups.

Many department stores failed to adequately reinvent their value for consumers following the 2008 financial crisis.⁵⁴ Struggling high street players have been unable to catch up with consumer demand. And venture-backed companies that prioritised growth over profits are now struggling with liquidity as venture funds scale back investments. Digitally inept discount players operating their businesses at low margins, in addition to brands targeting consumer groups other than core online shoppers, are likely to struggle more than others. Multi-brand boutiques will also suffer, grappling with demanding rent obligations and dwindling cash reserves resulting from already poor margins and excess stock.

The ensuing financial distress will spur industry consolidation to an extent significantly greater than that caused by the 2008 global financial crisis.

The ensuing financial distress will spur industry consolidation to an extent significantly greater than that caused by the 2008 global financial crisis, which led to approximately 300 US fashion companies declaring bankruptcy.⁵⁵ Though M&A activity will slow down at first⁵⁶ as companies struggle with liquidity and stock devaluations, it will pick up once the dust settles as strong, strategic investors and private equity companies take the opportunity to acquire distressed assets for a steal. This is especially true for fragmented categories like footwear and stock-laden, wholesale-focused brands. Even the industry's top 20 "super winners" are not fully immune from the crisis and have seen valuations plummet. Between January 1 and March 24, stock prices declined more than 40 percent

(which is the average for all apparel players) for six out of 20 super winners cited in The State of Fashion 2020 report.

However, in the aftermath of a crisis, resilient players can outperform rivals. Power can be consolidated as previously held market share is freed up once competitors fall away.

However, in the aftermath of a crisis, resilient players can outperform rivals. Power can be consolidated as previously held market share is freed up once competitors fall away. With better access to resources and government aid, powerful fashion conglomerates are at an advantage and Asian and Middle Eastern investors will push on with cross-border acquisitions while the markets are down. Some outperforming players will be emboldened by opportunities that arise during the consolidation reshuffle.

Maintaining a future-orientated outlook is key to enabling stronger players to thrive beyond the crisis. Fashion businesses need to steel themselves for a turbocharged "survival of the fittest" climate. To start, a re-evaluation of their core will foster growth by improving liquidity and bringing potential acquisition targets into focus. Thereafter, a cautious re-appraisal of business models and future market positioning will allow agile players to thrive. Companies must strategically think about their future now. This includes identifying financial leverage, divestitures, acquisition opportunities and strategic partners, increasing earnings, and creating operational and financial stability early in the recession.

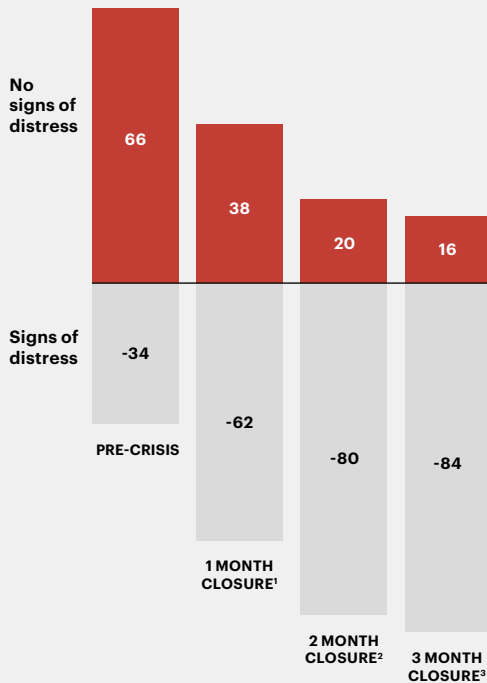
In previous global crises, some players identified opportunities in future-proofing brands, such as GAP's acquisition of Athleta in 2008, which it used to enter the rising sportswear category and is now driving the company's growth.⁵⁷ Others may opt

04. DARWINIAN SHAKEOUT

Exhibit 4:

Extended lockdowns will bring more than 80 percent of fashion players into financial distress

POTENTIAL IMPACT OF LOCKDOWN DURATION
PERCENT OF APPAREL AND LUXURY COMPANIES IN THE UNITED STATES, CANADA AND EUROPE



¹ 1 MONTH STORE CLOSURE AND 1 MONTH LOST SALES IN RAMP-DOWN, RAMP-UP - EQUIVALENT TO 17% FY REVENUE DECLINE, US INCL. COGS DECLINE

² 2 MONTH STORE CLOSURE AND 2 MONTH LOST SALES IN RAMP-DOWN, RAMP-UP - EQUIVALENT TO 33% FY REVENUE DECLINE, US INCL. COGS DECLINE

³ 3 MONTH STORE CLOSURE AND 3 MONTH LOST SALES IN RAMP-DOWN, RAMP-UP - EQUIVALENT TO 42% FY REVENUE DECLINE, US INCL. COGS DECLINE

NOTE: DISTRESS MEANING NEGATIVE EBITDA (FOR EUROPE ONLY) OR NET DEBT/EBITDA > 4. INCLUDES 71 LISTED EMEA AND 77 LISTED NA APPAREL & FASHION COMPANIES, >250MN NET SALES

SOURCE: MCKINSEY & COMPANY STRATEGY AND CORPORATE PERFORMANCE ANALYTICS

to rebuild their brand through privatisation without shareholder pressure or link arms with a strong partner to guarantee liquidity. Elsewhere, private equity funds will purge their portfolios of weaker players, providing onlookers with a chance to identify new targets and privatise amid low valuations.

Companies must strategically think about their future now. This includes identifying financial leverage, divestitures, acquisition opportunities and strategic partners, increasing earnings, and creating operational and financial stability early in the recession.

During this wave of consolidation, M&A activity and insolvencies, fashion players must be alert to opportunities concealed in market gaps that open as other companies shutter, be it in real estate, revenue potential or talent, which will pave the way for post-pandemic prosperity. Companies that struggled before this crisis will be hit especially hard, but some resilient players and PE firms will emerge even stronger. Ultimately, the success of most opportunities seized during fashion's big shakeout will be a factor of how well companies prepare themselves now – and how fast they are able to evolve to suit their newly changed environment.

05. INNOVATION IMPERATIVE

To cope with new restrictions, mitigate the damaging impact of the pandemic and adapt to economic and consumer shifts, companies must introduce new tools and strategies across the value chain to future-proof their business models. Fashion players must harness these innovations and scale up those that work in order to make radical and enduring changes to their organisations — and to the wider industry — after the dust settles.

Necessity is the mother of invention. The coronavirus has sent shockwaves through the fashion industry, forcing companies to rapidly dispense with age-old industry practices and create new ones just to stay afloat. In doing so, it has exposed long-overdue upgrades required by a fashion system that is ripe for disruption.

Quick moves to halt production, close stores, find alternative revenue streams and identify new ways of working became necessary to navigate a shifting landscape of strictly enforced quarantines and social distancing, compelling fashion players to accelerate strategies that were at trial-stage just months ago into new operational realities. Some technologies that had been slow to take hold — think virtual fashion shows and digital show rooms, sample sign-offs in sourcing offices, livestream commerce and the latest 3D design tools — are now being relied upon to get business done.

As soon as the immediate firefighting subsides, brands should identify where to focus their attention and make longer term innovation investments. Technologies and processes successfully implemented during the crisis will have a profound effect on the industry's future. With time, shoppers and business leaders will become acquainted with the benefits of new practices,

causing them to stick. Asia will play a starring role in informing key investors of new opportunities.

“Don't let innovation stop, because this could be the window of opportunity,” retail futurist Doug Stephens cautioned in March 2020. “Use this time to reinvent how you do what you do, bring consumers new alternatives, new value, and in the process even reinvent your own brand.”

“Don't let innovation stop, because this could be the window of opportunity, use this time to reinvent how you do what you do, bring consumers new alternatives, new value, and in the process even reinvent your own brand.”

Successful players will embrace new technologies and behaviours for the long haul, beginning with operating models and hiring strategies. Companies previously bound by physical borders are discovering the efficiency of cross-functional emergency teams and, as a result, will continue to break down silos between product teams and will rethink the necessity of in-person meetings and travel. They will also

05. INNOVATION IMPERATIVE

hire more across geographical borders, sourcing top talent internationally and setting up cells outside of headquarters to attract talent — much like Adidas’s design lab, Brooklyn Creator Farm, which offers a global model.⁵⁸ New habits are already being put to the test across the fashion industry, from an 84 percent rise in remote working to a 79 percent uptick in video conferencing and a 58 percent increase in flexible working hours.⁵⁹ Investing in technology that enables efficient employee interaction will serve teams in the long term.

Specialist tech platforms catering to fashion — from digital wholesale showroom Joor to livestream start-up Hero — have already experienced a spike in demand, with the latter enjoying a 20 percent uptick in average orders placed during the first two weeks of March 2020 in the US when the coronavirus outbreak was gaining speed.⁶⁰ This is not to mention the rising success of broader-use digital enabling services such as Zoom, which has seen its stock price spike more than 100 percent,⁶¹ and Slack, which has doubled its daily users since the outbreak began.⁶²

Fashion brands will also need to operate more flexibly across the value chain, cutting down go-to-market times and adapting more responsively to consumer trends and needs. For instance, designers and merchandisers will be empowered to make faster decisions and steer brands towards a demand-driven model with 3D technology, virtual sampling and AI-supported planning.

Production-wise, successful contingency plans executed during the pandemic — such as relocating production to Turkey while mainland China was on lockdown⁶³ — will encourage brands to think laterally about normal production runs. Nearshoring will be accelerated in response to a heightened desire for products made closer to home. One outcome could be to leverage new manufacturing hubs for capsule collections, while backward integration and semi-automation could provide further support to increase flexibility of the supply chain and better prepare for future shocks.

Digitisation of wholesale has been much slower than its consumer-facing counterpart, but the rise of digital showrooms and new B2B practices will persuade more players that there are viable alternatives to the millions of physical samples that are produced for showrooms, and high intensity travel to traditional trade shows and fashion weeks.

New habits are already being put to the test across the fashion industry, from an 84 percent rise in remote working to a 79 percent uptick in video conferencing and a 58 percent increase in flexible working hours.

Asics used technology to launch its new sneaker models. Unable to invite the international media to its Japanese headquarters during the lockdown, the company recreated its presentation in VR and shipped Oculus Quest headsets to journalists to watch the hologram.⁶⁴ Elsewhere, Chinese showroom agency DFO utilised livestreaming during Paris Fashion Week to reach buyers in China and engaged double the number of people who would normally travel to Europe. Resulting orders, 95 percent of which were placed digitally, hit 80 percent of the agency’s sales targets.⁶⁵

With fashion shows and seasons completely wiped from the first half of the 2020 calendar and the September shows still hanging in the balance, the fashion cycle may also experience a long-overdue cadence shift. Fashion Week has been a growing pain point for the industry from a sustainability and investment standpoint with many viewing it as an antiquated resource vacuum. Resource-intensive destination cruise and resort shows need to be re-evaluated, as well as the idea of multiple fashion weeks in multiple cities throughout the year. The necessity for fashion to “skip a season” also offers an opportunity to sell products in-season, instead

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of bringing in deliveries earlier and earlier, so that winter clothes are selling in July. It will be up to bigger players to rethink the fashion cycle and catalyse real change by adopting new digital formats and setting an example for the rest of the industry.

Sustainability credentials will be employed as one method to regain consumers' trust and wallets as they emerge from the discounting slump.

Brands will also innovate their products by integrating emerging consumer trends. For example, Chinese brand Cosmo Lady developed an antibacterial intimate wear line which capitalises on a niche product concept that now appeals to mainstream concerns for health and safety — a move that boosted its stock price by 21 percent.⁶⁶

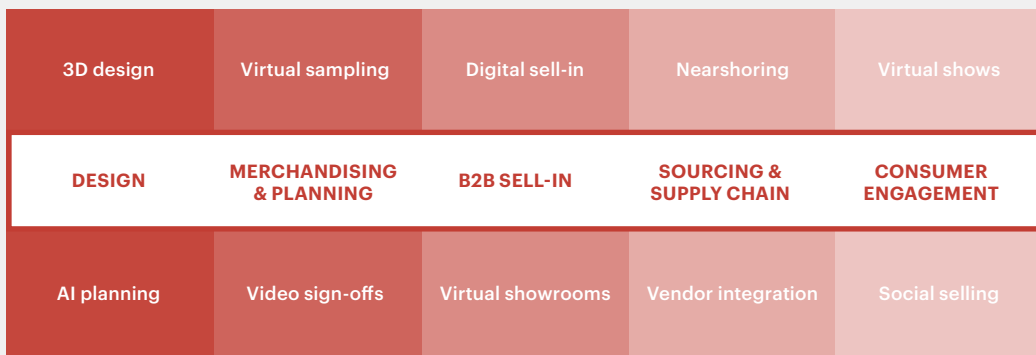
Meanwhile, sustainability credentials will be employed as one method to regain consumers' trust and wallets as they emerge from the discounting

slump, as messages based on values are welcomed by more receptive ears. At the same time, alternative business models not based on generating virgin products, such as resale, upcycling and recycling, may see a boost from high levels of overstock in the system. However, consumers hit hard by a global recession will be more cost-conscious than ever and may consider sustainability in their purchasing decisions even less than before. Whatever the outcome, sustainability messaging will need to be grounded in authentic behaviour and rigorous internal practices.

For innovations to stick, brands need to strategically anchor them in their roadmap and operating methods, with substantial business model and process changes necessary to harmonise pre- and post-pandemic era approaches. Fashion players need to identify, prioritise and scale up innovations that worked and benefited them the most during the crisis, implementing a test-and-learn approach in a new world where speed is of the essence.

Exhibit 5:

Innovation has been scaled-up along the entire fashion value chain and is here to stay



SOURCE: MCKINSEY & COMPANY



IN-DEPTH

Fashion Looks to China for a Glimpse of Its Future

Now that China has passed the peak of its coronavirus outbreak, a major push is underway to restart the economy. But to what extent will the Chinese market be a “crystal ball” for businesses elsewhere as they enter the recovery phase of the pandemic?

by Casey Hall



As the first country to be hit by the coronavirus and the first to return to work after a months-long shutdown, all eyes are on now on China for a glimpse into the future.

The hope is that Chinese businesses — which were impacted earlier than the rest of the world — will serve as a crystal ball for executives elsewhere looking to intervene with strategies adapted or borrowed from China. But that’s not the only reason industry leaders are looking east.

“We are seeing the other side of the crisis in China. We now have a playbook we can use elsewhere.”

China’s colossal consumer market and the critical role the country plays in supply chains means its own recovery will be a determining factor in the recovery of the global fashion industry. China is not only the world’s largest fashion market,⁶⁷ it is also the

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growth engine for the luxury sector, accounting for nearly a third of luxury purchases worldwide.⁶⁸ With so much riding on this one market, the first question facing fashion players worldwide is: how soon will Chinese spending return to pre-pandemic levels?

Bruised but Open for Business

Official retail data for January and February 2020 painted a grim picture, with a more than 20 percent year-on-year drop in sales.⁶⁹ Hardest hit are companies with broad brick-and-mortar footprints that have yet to transition to an omnichannel model.

Belle International, China's largest shoe retailer, has more than 20,000 stores across China, none of which have seen much foot traffic for months. H&M closed two-thirds of its China stores and lost 90 percent of its sales at the peak of the outbreak, although its store network had almost entirely reopened by the first week of April 2020.⁷⁰ Burberry — which has dozens of stores on the mainland and is highly exposed to Chinese travel retail demand — warned of a dramatic hit to sales in March 2020.⁷¹

Retailers with strong digital and omnichannel strategies are in a better position to minimise foregone revenues. Nike, for example, saw a jump in e-commerce sales cushion losses from China's retail closures this quarter. "We are seeing the other side of the crisis in China. We now have a playbook we can use elsewhere," said Nike Chief Executive John Donahoe.⁷²

Though most shops are open for business in almost all major Chinese cities outside of Wuhan, where lockdown conditions were set to be lifted in early April, people are still feeling raw from the recent crisis and wary of its potential re-emergence.

Striking the right note in such a climate is not easy and, in China, many brands went quiet, preferring to say nothing to consumers rather than risk a mistake. The downside to this approach is of course that, during a crisis, people crave connection and brands who are completely absent will lose mindshare. One example of a positive and caring message during the worst of China's coronavirus outbreak came from Louis Vuitton, which followed the announcement of a donation to relief efforts

in Wuhan by parent company LVMH with a short message published on social media channels reading (in Chinese): "Every paused journey will eventually restart. Louis Vuitton hopes you and your loved ones stay safe and healthy."

While stores were closed, the brand concentrated efforts on customer outreach and a Valentine's Day pop-up store on WeChat, featuring store assistants on live chat ready to communicate in real-time with shoppers — a strategy which saw online sales double compared to the previous year's efforts.⁷³

The coronavirus crisis will further increase the pace of retail consolidation, with lower valuations creating more "opportunities for those that have some cash flow to make acquisitions."

Companies, including Swatch Group and Salvatore Ferragamo have noted some improvements in their China sales already, but it is unclear to what extent. In any case, positive momentum is likely to be unevenly spread among brands by consumer and product segments. Jason Yu, general manager of Kantar Worldpanel for Greater China, predicts cutbacks in discretionary spending on travel and hard luxury, with "opportunities in affordable luxuries...especially beauty" remaining.

Beijing is desperate to restart China's economy as quickly as possible, with fears growing of the first economic contraction since the Mao era in the first quarter and the World Bank downgrading China's full year GDP growth estimate to 2.3 percent. While green shoots are an increasingly common sight across China's fashion value chain — from manufacturing to retail — they are sporadic.

A report released in March 2020 by Fung Business Intelligence Group predicts that the lingering effects of the outbreak in China will remain throughout April and into May. "We believe the disease outbreak will linger for another two to

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three months in China. By then, consumption will gradually return to pre-outbreak levels,” the report reads in part. Savills China Retail, meanwhile, predicts a full recovery for the country’s retail sector in the second half of the year. However, it is important to note that there is little consensus among market observers; others weighing in on future recovery scenarios predict a significantly longer time horizon.

One thing preventing a speedier recovery is that some restrictions on people remain; they often vary by city where local municipalities are responding to local conditions. As a result, there are still some limits on the number of shoppers allowed in stores at once, for example, or mandates of self-quarantine for those travelling domestically to shop between cities, cutting off the potential for tourism spend within the country. These measures feed into consumer sentiment and are born out of a reasonable fear the virus may re-emerge but are hampering service and retail sector rebounds. The result will be a bumpier journey back to pre-pandemic spending levels than many brands would like.

Watching this outcome from afar, businesses in other markets may seek to lobby their national governments to coordinate a more united, joined-up “open for business” strategy when they eventually re-open from their respective lockdowns. This is an easier proposition in smaller nations than in large ones like the United States, where the response to the pandemic itself has been fragmented on a state-by-state level.

Investing in Digital Resilience

As a sprawling and fragmented market with few nationally dominant retailers, China’s retail landscape is constantly consolidating. According to Jason Yu, the coronavirus crisis will further increase the pace of retail consolidation, with lower valuations creating more “opportunities for those that have some cash flow to make acquisitions.”

The spread of the coronavirus pandemic overseas and the global travel restrictions it has spawned will concentrate Chinese consumer spending within China for some time. This

reshoring of spending, particularly apparent at the high-end of the fashion market, has been a trend since 2016, bolstered by government edicts lowering import levies on luxury goods, and bringing prices in China more in line with those elsewhere in the world. Further lowering taxes on consumer goods is one relatively straightforward measure the central government might use to stimulate consumption if the rebound in consumer appetite seems unsuitably robust moving into the second quarter of the year.

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As much as 60 percent of GDP growth in China is attributed to consumer spending,⁷⁴ making it the most important factor in how the country’s economic recovery fares in the wake of its coronavirus outbreak. Though the export industry only accounts for 20 percent of China’s GDP,⁷⁵ supply chain interruptions and cancelled orders from overseas are placing huge burdens on this sector. The February 2020 unemployment rate of 5.7 percent was a record high for the country and widespread manufacturing job losses are likely to further dampen consumer sentiment.

One thing that should give both brands and economic policy-makers comfort is how resilient the Chinese consumer has proven to be in recent years. Even a protracted trade war with the US and a massive protest movement on its doorstep in Hong Kong have not been enough to shake consumer confidence levels. In February 2020, as the coronavirus outbreak was still raging in China, the country’s Consumer Confidence Index, though it dropped a significant 4.3 points, remained the highest in the world.⁷⁶

Luxury brands are currently focusing recovery efforts on full-price, current season

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offerings on e-commerce platforms such as Tmall's Luxury Pavilion, Secoo and JD.com, as well as their own WeChat commerce channels. The increased focus on online sales will no doubt be a global phenomenon as stores around the world remain shut for an indeterminate period, but local players are bullish about the longer-term prospects for luxury e-commerce. Secoo Chairman and Chief Executive Li Rixue predicts e-commerce sales will make up 30 percent of China's \$150 billion in annual luxury sales within the next five years, up from 10 percent today.

Showrooms that hold wholesale designer brands during Shanghai Fashion Week are now largely being conducted via livestreaming, video conference appointments and online ordering in a test of just how much the fashion industry can be digitised.

Consumers have increasingly looked online for their shopping needs as varying degrees of lockdowns and quarantines kept as many as 780 million people in China home over Chinese New Year and the weeks beyond.⁷⁷ Even as overall retail sales bottomed out, e-commerce was one bright spot in official economic data, with 3 percent growth for January and February 2020. Christy Tan, head of markets strategy and research for Asia at National Australia Bank, notes a fundamental shift in China towards "consumption that is more indoor-based than outdoor-based." To date, it has been livestreaming that has emerged as the innovation to watch in this space.

The "Crystal Ball" Has its Limits

In the wake of lockdowns, some traditional brick-and-mortar retailers in China have re-trained sales assistants to be livestream hosts, helping to claw back some of the shortfall from store closures.

Even luxury brands have jumped on the bandwagon, with Burberry, Prada and Bottega Veneta all signing on to Tmall's monthly luxury livestreaming promotion. In the midst of China's coronavirus crisis, Xiaohongshu also more aggressively rolled out its livestreaming tool, with Louis Vuitton becoming one of the first luxury brands to use the feature on the popular social commerce platform.

As stores close in other global markets and consumers increasingly turn to e-commerce for shopping and short video social media sites for entertainment, the trend to combine the two in the form of livestreaming commerce seems to be a uniquely Chinese one at this point — though there is no reason it must stay that way. Brands may not be able to reach consumers in the west using Taobao Live, Yizhibo or Xiaohongshu to capitalise on this intersection of entertainment and commerce, but a similar opportunity may exist by strategising more around globally accessible platforms like TikTok and Instagram Live.

Organisers of Shanghai Fashion Week — who called off their physical event this season — have also pivoted to livestreaming, not only for fashion presentations but also by teaming up with Alibaba to allow brands to sell current season stock through the tech giant's Tmall platform. Showrooms that hold wholesale designer brands during Shanghai Fashion Week are now largely being conducted via livestreaming, video conference appointments and online ordering in a test of just how much the fashion industry can be digitised — a B2B experiment that will be watched closely by industry peers around the world.

Industry leaders should remain sufficiently sceptical about the accuracy of this "crystal ball" because it is often misguided to draw global conclusions based on the Chinese market context.

The verdict on showrooms' early efforts seems mostly positive. "This season we did it as

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an emergency contingency, but I found it to be so exciting [that] I truly regret we haven't experimented with this before," DFO showroom and buying agency Chief Executive Meimei Ding said in March.

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Just as brands and retailers must transform themselves to serve the customer where and when they are needed, manufacturers in China are increasingly becoming “customer first” entities in order to survive. Already suffering a long-term trend of offshoring garment manufacturing to markets with lower labour costs, more Chinese manufacturers are considering a pivot from export merchandise for international brands to local brands catering to domestic demand.

A global decline in orders from major clothing brands will see even more factories competing for this domestic business and many converting to a “consumer-to-manufacturer” (C2M) model. Alibaba-owned Taobao recently unveiled its plans to work with 1,000 manufacturers across China on its custom-manufacturing platform, aiming to turn them into “super factories” with annual output exceeding RMB 100 million (\$14 million) each.

While some of the business pivots, trends and innovations that emerged during the outbreak in China will almost certainly foretell what happens elsewhere around the world — particularly the spotlight on wellness, livestreaming and patriotic consumption — there are important caveats to consider. Industry leaders should remain sufficiently sceptical about the accuracy of this “crystal ball” because it is often misguided to draw global conclusions based on the Chinese market context.

For one, China appears to have been able to

contain its outbreak relatively quickly (although fears of a second wave are constant, with worrying signs of new small-scale outbreaks around the country at the time of writing). The type of strong centralised political power structure found in China, allowing the government to impose strict pandemic restrictions, doesn't exist in many western democracies. And it is hard to imagine information gathering being as straightforward elsewhere as it is in China, where there is a lack of privacy legislation helping tech giants — and the brands that benefit from their big data operations — to trace and track people's movements, activities and interactions.

What's more, China's predominantly insular tech ecosystem, unique cultural context and its rapid, comparatively recent economic development makes it a very different market proposition and one that can't easily be compared to other global markets or used as a barometer for all scenarios.

As the economic fallout unfolds, the Chinese market will continue to dance to its own rhythm and, while some of the beats will sound familiar or indeed universal, others won't be popular beyond its borders.

As the first country to suffer from the coronavirus outbreak, China's customer-first, innovation-centred recovery mentality may prove to be a model for some global fashion industry leaders to emulate during these tough times — but only up to a point. As the economic fallout unfolds, the Chinese market will continue to dance to its own rhythm and, while some of the beats will sound familiar or indeed universal, others won't be popular beyond its borders.



GLOSSARY

3D design

Design enabled through software tool for virtual rendering and 3D visualisation of products with the ultimate goal of replacement for physical prototypes.

APAC (emerging)

American Samoa, Bangladesh, Bhutan, Brunei, Cambodia, China, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Kiribati, Laos, Macau, Malaysia, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, North Korea, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam.

APAC (mature)

Australia, Japan, New Zealand, Singapore, South Korea, Taiwan.

Artificial intelligence

The theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision making and translation between languages.

Capital efficiency

A measure of profitability used to assess how effective a company is at turning capital into financial performance.

COGS

An income statement item stating the total costs used to create a product or service, which has been sold.

Consumer sentiment

An indicator that measures how optimistic consumers feel about their finances, the state of the economy and purchasing behaviour.

Covid-19

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 and was classified a pandemic by the World Health Organisation on March 11, 2020.

Digital sell-in

Digital interface that is comparable to an online store, designed for the showing of products and order intake with B2B customers.

EBITA

An income statement item that deducts amortisation from earnings before interest and taxes (EBIT). An alternative measure of income a firm makes from its core operations.

EBITA margin

A measurement of a company's EBITA as a percentage of its total revenue.

Economic profit

Measure of value created by businesses, whereby opportunity costs are deducted from revenues earned. A company creates value when its operating profit exceeds the dollar cost of capital. Economic Profit is defined as Net Operating Profit, less Adjusted Taxes (NOPLAT) minus Capital Charge (WACC multiplied by Invested Capital).

Europe (emerging)

Albania, Andorra, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus,

Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine.

Europe (mature)

Austria, Belgium, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom.

Financial distress

A definition for negative EBITDA (for Europe only) and net debt/EBITDA > 4.

GDP

The total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period and thus serving as a measure of economic health.

LatAm

Anguilla, Antigua, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Curacao, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Nicaragua, Panama, Paraguay, Peru, Sint Maarten, Suriname, St Kitts, St Lucia, St Vincent and the Grenadines, Trinidad and Tobago, Uruguay, Venezuela.

Livestreaming

The broadcasting of an event or product offering (e.g., fashion show livestream).

M&A activity

The consolidation of companies through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers or purchase of assets.

Market capitalisation

Indication of the total market value of a company's outstanding shares of stock. It is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.

McKinsey Global Fashion Index

Proprietary and copyrighted McKinsey tool that provides a global and holistic industry benchmark for the entire fashion industry. The MGFI was first created for The State of Fashion 2017 to track the industry performance through three key variables: sales, operating profit and economic profit. MGFI is composed of an extensive list of public and private companies spanning across market segments, product categories and geographies. The analysis of public companies is built with data from McKinsey Corporate Performance Analytics.

MEA

Afghanistan, Algeria, Angola, Bahrain, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Democratic Republic of Congo, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Iran, Iraq, Israel, Ivory Coast, Jordan, Kazakhstan, Kenya, Kuwait, Kyrgyzstan, Lebanon, Lesotho, Liberia, Libya, Madagascar, Malawi, Maldives, Mali, Mauritania, Mauritius,

Morocco, Mozambique, Namibia, Niger, Nigeria, Oman, Pakistan, Qatar, Réunion, Rwanda, Sao Tomé e Príncipe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Syria, Tajikistan, Tanzania, Togo, Tunisia, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan, Yemen, Zambia, Zimbabwe.

North America

Canada, Puerto Rico, United States of America.

Overstock

An excess in inventory, which has not been purchased by consumers.

PE

A private equity firm - an investment management company that provides financial backing and makes investments in start-ups or operating companies through a variety of affiliated investment strategies including acquisitions, venture capital, and growth capital.

S&P 500

The S&P 500 is a stock market index that tracks the stocks of 500 large-cap US companies.

Super Winners

The top 20 fashion players by economic profit according to The State of Fashion Report.

Upcycling

The creative use of overstock into new materials or products of better quality or environmental value.

Value creator

A company generating positive economic profit.

Value destroyer

A company generating negative economic profit.

Virtual reality

Simulation of real-world experiences through technology and enabled through applications such as virtual reality goggles.

Virtual samples

Apparel prototypes created with 3D design and thus replacing the need for physical sampling.

Value segment

Segmentation by price of the fashion markets and participating companies used in the McKinsey Global Fashion Index and the BoF-McKinsey State of Fashion Survey. The companies are categorised in 6 segments, which are based on a price index across a wide basket of goods and geographies. The segments comprise from lowest to highest price segment: Discount, Value, Mid-market, Premium/Bridge, Affordable Luxury, Luxury.

Virtual work

Teams working remotely supported through tools like video conferencing, chat services and cloud services.

XR

Extended reality, a general term describing all real-and-virtual combined environments such as augmented reality, virtual reality or mixed reality.

INFOGRAPHICS

The State of Fashion 2020: Coronavirus Update infographics:

1. Survival Instincts

Source: BoF Community Survey: Impact of Covid-19, Fashion Industry Employees N=1,454, March 2020

2. Discount Mindset

Source: McKinsey & Company COVID-19 Apparel & Fashion survey, N=>6,000, 27/3-29/3 2020

3. Digital Escalation

Source: “淘宝再造的“直播节”，能引来疫后消费爆发吗？”，https://www.sohu.com/a/382744170_120296297

4. Darwinian Shakeout

Source: McKinsey & Company strategy and corporate performance analytics

5. Innovation Imperative

Source: The Business of Fashion & McKinsey & Company

Exhibits:

Exhibit 1. Survival Instincts

Source: “Safeguarding our lives and our livelihoods: The imperative of our time”, McKinsey & Company, March 2020, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/safeguarding-our-lives-and-our-livelihoods-the-imperative-of-our-time>

Exhibit 2. Discount Mindset

Source: McKinsey & Company Covid-19 Consumer Pulse
US 3/23-3/29/2020 N=1,119; UK 3/21-3/22 N = 1,007; Spain 3/21-3/22 N = 1,002; Italy 3/20-3/22 N = 1,003; France 3/24-26 N = 1,008; Germany 3/24-25 N = 1,014

Exhibit 3. Digital Escalation

Source: McKinsey & Company Covid-19 Apparel & Fashion survey, N=>6,000, 27/3 29/3 2020, non-weighted averages, excl. people who voted n/a

Exhibit 4. Darwinian Shakeout

Source: McKinsey & Company strategy and corporate performance analytics

Exhibit 5. Innovation Imperative

Source: McKinsey & Company

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FOR COMMERCIAL ENQUIRIES PLEASE CONTACT:

Nick Blunden

President

nick.blunden@businessoffashion.com

Johanna Stout

Global Head of Strategic
Partnerships, London

johanna.stout@businessoffashion.com

Piers Hopkins

Director, Business Development
and Operations, Shanghai

piers.hopkins@businessoffashion.com

Christian Layolle

Global Head of Business
Development, London

christian@businessoffashion.com

Joan Cheng

Managing Director,
North America, New York

joan.cheng@businessoffashion.com

FOR EDITORIAL ENQUIRIES PLEASE CONTACT:

Imran Amed

Founder, CEO & Editor-in-Chief

ceo.office@businessoffashion.com

Lauren Sherman

Executive Editor, New York

lauren.sherman@businessoffashion.com

Brian Baskin

News and Features Editor,
New York

brian.baskin@businessoffashion.com

Vikram Alexei Kansara

Editorial Director, London

vikram.kansara@businessoffashion.com

Robb Young

Global Markets Editor, London

robb.young@businessoffashion.com

McKinsey & Company

For questions on the report or further discussions, please contact a member of McKinsey's Apparel, Fashion & Luxury global leadership team:

FOR REPORT ENQUIRIES:

Achim Berg
Senior Partner, Global

achim_berg@mckinsey.com
linkedin.com/in/achim-berg

Anita Balchandani
Partner, United Kingdom

anita_balchandani@mckinsey.com
linkedin.com/in/anita-balchandani

FOR PRESS ENQUIRIES PLEASE CONTACT:

Adriana Clemens
Senior Communication Specialist

adriana_clemens@mckinsey.com
linkedin.com/in/adriana-clemens

FOR REGIONALLY FOCUSED ENQUIRIES:

Antonio Achille
Senior Partner, Mediterranean

antonio_achille@mckinsey.com

Danielle Bozarth
Senior Partner, North America

danielle_bozarth@mckinsey.com

Jenny Cermak
Partner, Australia

jenny_cermak@mckinsey.com

Antonio Gonzalo

Partner, Iberia

antonio_gonzalo@mckinsey.com

Naoyuki Iwatani

Senior Partner, Japan

naoyuki_iwatani@mckinsey.com

Fernanda Hoefel

Partner, Latin America

fernanda_hoefel@mckinsey.com

Sara Kappelmark

Partner, Nordics

sara_kappelmark@mckinsey.com

Aimee Kim

Senior Partner, Asia Pacific

aimee_kim@mckinsey.com

Sajal Kohli

Senior Partner, North America

sajal_kohli@mckinsey.com

Franck Laizet

Senior Partner, France

franck_laizet@mckinsey.com

Karl-Hendrik Magnus

Senior Partner, Germany

karl-hendrik_magnus@mckinsey.com

Sophie Marchessou

Partner, France

sophie_marchessou@mckinsey.com

Althea Peng

Partner, North America

althea_peng@mckinsey.com

Jennifer Schmidt

Senior Partner, North America

jennifer_schmidt@mckinsey.com

Alex Sukharevsky

Senior Partner, Russia and CEE

alex_sukharevsky@mckinsey.com

Alexander Thiel

Partner, Switzerland

alexander_thiel@mckinsey.com

Madeleine Tjon Pian Gi

Partner, Benelux

madeleine_tjon_pian_gi@mckinsey.com

Nitasha Walia

Associate Partner, Middle East

nitasha_walia@mckinsey.com

Daniel Zipser

Senior Partner, Greater China

daniel_zipser@mckinsey.com